

Message Text

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ACTION EUR-25

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AMEMBASSY THE HAGUE

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SUBJECT: NEW EXCHANGE CONTROL MEASURES TO LIMIT SPECULATION

REF: (A) ROME 7376 OF JULY 25, 1973; (B) ROME 7482 OF
JULY 27, 1973

1. /SUMMARY/: ON JULY 27, WEEK-OLD RUMOR GOVERNMENT ISSUED
FIVE NEW REGULATIONS DESIGNED TO LIMIT SPECULATION AGAINST
LIRA. MEASURES INCLUDE REQUIREMENTS THAT : (A) FOR ALL FOREIGN
INVESTMENTS, INVESTORS PLACE LIRA DEPOSIT EQUAL TO 50 0/0 OF
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INVESTMENT IN BLOCKED, INTREST-FREE ACCOUNT WITH BANK INVOLVED

IN TRANSACTION; (B) ADVANCE IMPORT PAYMENTS BE MADE WITH FOREIGN EXCHANGE ONLY FROM ITALIAN BANKS; (C) ADVANCE PAYMENT FOR IMPORTS UNDER LONGTERM CONTRACT WHICH SPECIFIES PAYMENT AFTER IMPORTATION OF GOODS IS SUBJECT TO PRIOR APPROVAL; (D) FOREIGN EXCHANGE POSITION OF BANKS MUST BE BALANCED IN TERMS FO THREE SEPARATE EXCHANGE POSITIONS (U.S. DOLLARS, EC CURRENCIES, AND OTHER CURRENCIES); (E) MONEY BROKERS MUST PROVIDE CERTAIN INFORMATION AND REPORT ALL TRANSACTIONS MONTHLY TO ITALIAN EXCHANGE OFFICE. LATEST MEASURES ARE INTEGRAL PART OF COMPREHENSIVE PROGRAM DESIGNED TO COMBAT INFLATION, PROMOTE ECONOMIC RECOVERY AND STRENGTHEN LIRA AND COMPLEMENT ANTI-INFLATION PROGRAM OF JULY 24 AND CREDIT RESTRICTIONS OF JULY 26 (SEE REF A AND B). /END SUMMARY/.

2. ON JULY 27, IN AN EFFORT TO LIMIT DOMESTIC SPECULATION AGAINST LIRA MINISTER OF FOREIGN TRADE WITH CONSENT OF MINISTER OF TREASURY ISSUED A MINISTERIAL DECREE CONCERNING FOREIGN INVESTMENT BY ITALIAN RESIDENTS AND ITALIAN EXCHANGE CONTROL OFFICE (UIC) ISSUED FIVE CIRCULARS MODIFYING CURRENT EXCHANGE REGULATIONS CONCERNING FOREIGN INVESTMENT, PRIOR IMPORT PAYMENTS, FOREIGN EXCHANGE POSITION OF COMMERCIAL BANKS, AND ACTIVITIES OF MONEY BROKERS.

3. /CONTROLS ON INVESTMENT ABROAD/: MINISTERIAL DECREE AND FIRST UIC CIRCULAR SPECIFY THAT ITALIAN RESIDENTS MAKING CAPITAL INVESTMENTS ABROAD MUST PLACE IN BLOCKED, INTERESTFREE ACCOUNT WITH BANK HANDLING TRANSACTION, A DEPOSIT IN LIRE EQUAL TO 50 0/0 OF TOTAL INVESTMENT. THIS APPLIES TO DIRECT INVESTMENT, PORTFOLIO INVESTMENT, INVESTMENT IN REAL ESTATE, FINANCIAL LOANS AND PERSONAL CAPITAL MOVEMENTS. IN CASE OF MUTUAL FUNDS, DEPOSIT IS REDUCED TO 25 0/0. FURTHERMORE, BANKS ARE REQUIRED ON DAILY BASIS TO TURN THESE DEPOSITS OVER TO LOCAL BRANCH OF BANK OF ITALY. DEPOSITS WILL BE RELEASED TO INVESTOR ONLY WHEN ORIGINAL INVESTMENT CAPITAL IS DISINVESTED. REQUIREMENT DOES NOT BLOCK INVESTMENT ABROAD, BUT DOES MAKE IT MORE EXPENSIVE PARTICULARLY IN VIEW RESTRICTIVE CREDIT MEASURES TAKEN ON JULY 26 (SEE REF B).

4. /RESTRICTION OF ADVANCE IMPORT PAYMENTS:/ SECOND AND THIRD UIC CIRCULARS DEAL WITH ADVANCE PAYMENT FOR IMPORTS OF UNCLASSIFIED

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GOODS AND SERVICES. SECOND PROVISION REQUIRES THAT EFFECTIVE JULY 30, IMPORTERS MUST SECURE FOREIGN EXCHANGE FOR MAKING ADVANCE PAYMENTS ONLY THROUGH OFFICIAL CHANNELS, I.E., BANKS. THIS MEANS THAT IMPORTERS CAN BORROW FOREIGN EXCHANGE FROM A BANK IN ORDER TO MAKE ADVANCE PAYMENT. HOWEVER, REPAYMENT OF LOAN IN LIRE CAN ONLY BE MADE WHEN GOODS ACTUALLY ENTER CUSTOMS AND EXCHANGE RATE OF THAT DAY APPLIES TO REPAYMENT OF BANK LOAN, THEREBY REMOVING SPECULATIVE ATTRACTION OF

PRIOR PAYMENTS. THIRD PROVISION DEALS WITH LONG-TERM CONTRACTS FOR IMPORTATION OF PRIMARY MATERIALS WHICH SPECIFY A SERIES OF DELIVERY DATES AND PAYMENT MORE THAN 360 DAYS SUBSEQUENT TO IMPORTATION OF GOODS. IMPORTERS MUST RECEIVE AUTHORIZATION FROM MINISTER OF FOREIGN TRADE BEFORE MAKING PAYMENT FOR SUCH IMPORTS IN ADVANCE OF DATE SPECIFIED BY CONTRACT. BY TYING HIM TO TERMS OF CONTRACT, REQUIREMENT REMOVES OPTION OF IMPORTER TO TAKE ADVANTAGE OF EXCHANGE MARKET SITUATION.

5. /FOREIGN EXCHANGE POSITION OF BANKS/: EFFECTIVE JULY 30, BALANCING OF AGGREGATE FOREIGN EXCHANGE POSITION (SPOT AND FORWARD) OF BANKS MUST BE CALCULATED SEPARATELY IN TERMS OF US DOLLARS, EC CURRENCIES AND OTHER. UP TO NOW, BANK'S POSITIONS IN FOREIGN EXCHANGE HAD TO BE IN OVERALL BALANCE AT CLOSE OF EACH DAY. THIS ENABLED BANKS TO SPECULATE INTERNALLY AMONG VARIOUS CURRENCIES BY CLOSING WITH DEBIT IN WEAK CURRENCIES WHILE ACQUIRING CREDIT IN STRONG CURRENCIES. DIVISION OF FOREIGN EXCHANGE INTO THREE ACCOUNTS EACH OF WHICH MUST BE CLOSED IN BALANCE SHOULD GREATLY RESTRICT SPECULATIVE ACTIVITIES OF BANKS FOR CLIENTS OR ON THEIR OWN BEHALF.

6. /REGULATION OF MONEY BROKERS' ACTIVITIES/: FIFTH UIC CIRCULAR REQUIRES PRIVATE FOREIGN EXCHANGE DEALERS (MONEY BROKERS) TO IDENTIFY THEIR MANAGEMENT AND CONFIRM THEIR REGISTRATION WITH LOCAL CHAMBER OF COMMERCE TO UIC AS WELL AS TO SUBMIT MONTHLY REPORTS ON THEIR OPERATIONS. ALTHOUGH THERE ARE NOT MANY MONEY BROKERS IN ITALY, THEY ARE FREQUENTLY A CHANNEL FOR SUSPECT EXCHANGE OPERATIONS. NEW REGISTRATION AND REPORTING REQUIREMENTS SHOULD PERMIT AUTHORITIES TIGHTER CONTROL.

7. /COMMENT/: LATEST MEASURE TAKEN BY RUMOR GOVERNMENT
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DURING FIRST WEEK IN OFFICE IS PART OF HOMOGENEOUS PACKAGE DESIGNED TO COMBAT INFLATION, STRENGTHEN LIRA AND PROMOTE ECONOMIC RECOVERY. DISCOURAGEMENT OF SPECULATION THROUGH CAPITAL INVESTMENT ABROAD, ADVANCE IMPORT PAYMENTS AND MANIPULATION OF FOREIGN EXCHANGE ACCOUNTS OF COMMERCIAL BANKS SHOULD HELP ITALY'S SAGGING BALANCE OF PAYMENTS POSITION AND MAY BRING FINANCIAL AND COMMERCIAL LIRA RATES CLOSER TOGETHER. RECENT WIDENING OF SPREAD IS CONSIDERED TO HAVE HAD NEGATIVE PSYCHOLOGICAL IMPACT ON CONFIDENCE IN LIRA AT HOME AND ABROAD. IN ADDITION, MAKING FOREIGN INVESTMENT LESS ATTRACTIVE MAY INDUCE MORE DOMESTIC INVESTMENT, AT LEAST TO EXTENT THAT NOT ALL INVESTMENT ABROAD WAS SPECULATIVELY MOTIVATED.VOLPE

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